

# FDIC State Profile

Spring 2005

## Mississippi

Mississippi experienced positive economic and banking trends in 2004.

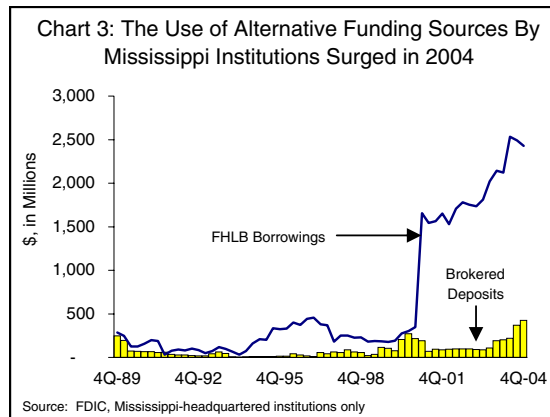
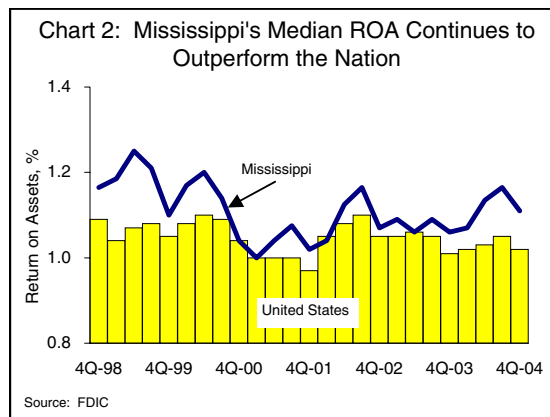
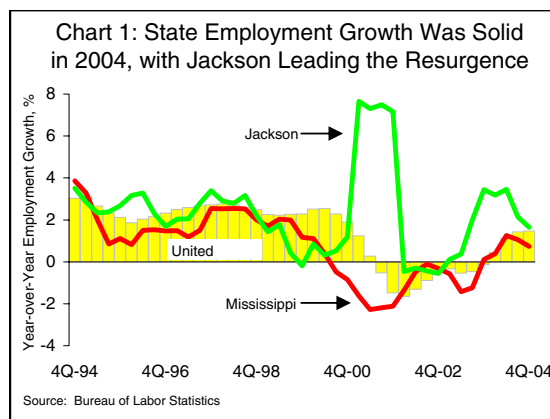
- Solid employment growth in Mississippi during 2004 was largely due to strong growth in the education and health services sectors and resurgent durable goods manufacturing, thanks primarily to the **Nissan** plant located in the **Jackson** MSA (See Chart 1).
- Bank performance was also solid with a return on average assets in fourth quarter 2004 of 1.11 percent for state-headquartered institutions, nine basis points above the national average for the same period (See Chart 2). This level of performance can be attributed to higher service and fee income as well as reductions in provision expenses, made possible by continued asset quality improvement.

Pressures on bank liquidity appear to have intensified.

- Growth in traditional deposit funding sources has stagnated at many banks in recent years and has largely failed to keep up with the growth in bank assets, particularly loans. In fact, the rate of loan growth was almost double that of core deposit growth for the 12 months ending December 31, 2004.
- In response to strong loan demand, state institutions have had to supplement traditional funding sources with a variety of new, but potentially less stable and more expensive, funding instruments. Brokered deposits use surged to the highest recorded level ever at \$424 million in fourth quarter 2004, while Federal Home Loan Bank borrowings dropped slightly from the record high achieved in third quarter 2004 (See Chart 3).

Mississippians await base closure decision.

- Mississippi may face job losses through base closures and realignments. Since the Pentagon's reported goal is to reduce approximately 25 percent of the military's current infrastructure, industry experts and state lawmakers speculate the cutbacks will affect at least some of Mississippi's nine bases. The initial list of affected bases is expected to be announced May 16, 2005.



- Pending base closures could be significant because three of the state's top eleven employers are military facilities. In addition, several more are top employers within their local communities. A recent study of prior base closings suggests that communities with larger, more diversified economies, such as the Gulf Coast cities, fare better over the long term than smaller communities.

### State budget problems will likely dampen job growth in the large government and public education sectors.

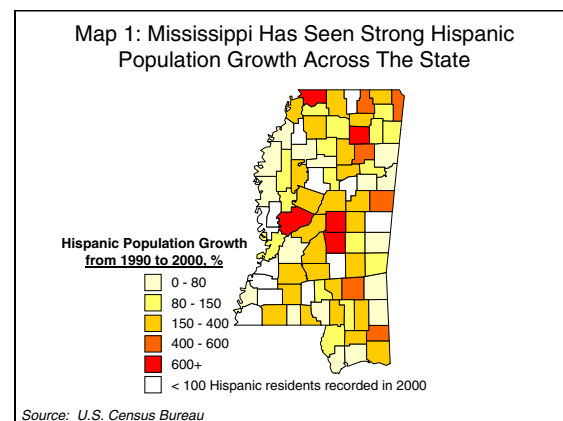
- Mississippi is projected to have a state budget deficit and spending gap approaching \$1 billion for fiscal year 2006, with Medicaid alone having a deficit of \$268 million.<sup>1</sup> Governor Haley Barbour has proposed a 5 percent budget cut for most state agencies except public education (K-12). This cutback will affect the large government sector that accounts for one in five jobs in Mississippi.
- The budget deficit will likely also constrain growth in the large education and health services industry that comprises some one in ten jobs for the state. In addition, House Appropriations Committee Chairman Johnny Stringer said parents and students of state higher education can expect to see tuition rise 18 to 20 percent next academic year.<sup>2</sup>

### Spring planting decisions are complicated by the arrival of soybean rust disease.

- Soybeans, one of the state's top commodities, are in jeopardy because of the recent arrival of Asian rust disease, a fungus which can destroy a crop in as brief a period as one week.
- Fortunately, the disease is treatable with fungicides. However, the typical cost of purchasing and applying a fungicide has been estimated at approximately \$25 an acre, increasing the cost of production between 15 and 20 percent.<sup>3</sup>
- This increase in production costs could lead to a significant decline in planted acreage this spring and, in turn, yield at least a modest price recovery for soybeans.<sup>4</sup> Correspondingly, the projected rise in soybean prices could in turn lead to increased feed costs for producers of other top commodities such as poultry, cattle, and catfish.

### Booming Hispanic population growth increases opportunities for the banking community.

- Between 1990 and 2000, the Hispanic population in Mississippi grew 148 percent, well above the national average of 58 percent. **Yazoo** and **Scott Counties** led the way with more than 1,000 percent growth each, while 11 counties in all experienced Hispanic population growth of more than 400 percent.<sup>5</sup> (See Map 1).
- The economies of counties with the highest Hispanic population growth rates tend to rely more heavily on the manufacturing sector, in particular poultry production, textile, and lumber. In fast growing areas, such as **Desoto County**, construction also appears to be fueling the influx of Hispanics. The stability in the poultry industry and strong metro employment growth suggests the migration trends have continued into 2005.
- Many industry analysts believe that more than half of all U.S. retail banking growth will originate from the Hispanic market during the next two decades. For an in-depth analysis of banking opportunities in the Hispanic market, see the article entitled "Banks Are Still Sizing Up Opportunities in the Growing Hispanic Market" in the FDIC Outlook (Winter 2004 edition)<sup>6</sup> and the March 22, 2005, FYI entitled "Bridging the Information Gap: How Bankers Can Help the Hispanic Population Realize the American Dream of Homeownership."<sup>7</sup>



<sup>1</sup>Fuquay, John "Art, math schools face closure" Clarion-Ledger, January 3, 2005.

<sup>2</sup>Kanengiser, Andy "Outlook for budget not pretty" Clarion-Ledger, February 17, 2005.

<sup>3</sup>Outlook Report, "Economic and Policy Implications of Wind-Borne Entry of Asian Soybean Rust into the United States" USDA, OCS-04D-02, April 2004.

<sup>4</sup>Mantemach, Dan "Data Dashboard Gauges Finally Flatten for Beans" Doane's Agricultural Report 68, no. 5 (February 2005).

<sup>5</sup>U.S. Census Bureau Database, <http://factfinder.census.gov>, accessed February 1, 2004.

<sup>6</sup>Available at: <http://www.fdic.gov/quicklinks/analysts.html>

<sup>7</sup>Available at: <http://www.fdic.gov/bank/analytical/fyi/2005/032205fyi.html>

## Mississippi at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	0.9%	0.1%	-0.3%	-2.1%	-0.9%
Manufacturing (16%)	-0.1%	-2.1%	-5.4%	-10.8%	-5.9%
Other (non-manufacturing) Goods-Producing (5%)	0.1%	-4.6%	-3.0%	1.3%	-3.4%
Private Service-Producing (57%)	1.3%	1.2%	0.8%	-0.7%	-0.2%
Government (22%)	1.1%	0.2%	1.6%	1.0%	3.1%
Unemployment Rate (% of labor force)	6.8	5.9	6.9	6.6	5.3

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	6.1%	1.6%	5.3%	4.1%
Single-Family Home Permits	-10.6%	31.8%	5.3%	12.2%	-14.8%
Multifamily Building Permits	251.7%	-46.2%	33.9%	-73.7%	138.1%
Existing Home Sales	5.1%	19.5%	9.4%	10.4%	-5.9%
Home Price Index	4.8%	3.4%	2.8%	5.2%	4.2%
Bankruptcy Filings per 1000 people (quarterly level)	1.69	1.76	1.98	1.89	1.67

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	102	103	105	107	109
Total Assets (in millions)	42,051	40,055	38,211	36,415	35,053
New Institutions (# < 3 years)	1	1	6	10	13
Subchapter S Institutions	20	16	16	14	12

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.38	2.79	3.26	3.66	3.17
ALLL/Total Loans (median %)	1.47	1.52	1.43	1.42	1.39
ALLL/Noncurrent Loans (median multiple)	2.26	1.85	1.62	1.72	1.50
Net Loan Losses / Total Loans (median %)	0.22	0.28	0.22	0.30	0.26

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.84	9.81	9.66	9.83	9.94
Return on Assets (median %)	1.11	1.06	1.07	1.02	1.04
Pretax Return on Assets (median %)	1.50	1.50	1.46	1.32	1.37
Net Interest Margin (median %)	4.17	4.18	4.29	4.06	4.29
Yield on Earning Assets (median %)	5.73	6.00	6.74	7.88	8.38
Cost of Funding Earning Assets (median %)	1.56	1.83	2.44	3.87	4.14
Provisions to Avg. Assets (median %)	0.17	0.21	0.23	0.24	0.24
Noninterest Income to Avg. Assets (median %)	0.98	0.90	0.92	0.88	0.85
Overhead to Avg. Assets (median %)	3.20	3.15	3.19	3.12	3.05

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	62.2	61.4	61.1	61.3	63.5
Noncore Funding to Assets (median %)	21.7	20.9	21.4	21.2	20.9
Long-term Assets to Assets (median %, call filers)	12.2	14.2	13.7	12.6	13.8
Brokered Deposits (number of institutions)	17	14	10	11	12
Brokered Deposits to Assets (median % for those above)	2.2	1.5	3.7	3.5	4.3

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	72.5	73.0	77.0	83.2	78.2
Commercial Real Estate	182.9	155.7	136.3	127.0	114.8
Construction & Development	22.1	18.3	20.7	15.2	14.2
Multifamily Residential Real Estate	2.2	2.2	1.8	2.5	0.4
Nonresidential Real Estate	130.4	110.1	110.0	101.7	101.1
Residential Real Estate	185.1	174.7	177.7	180.9	181.9
Consumer	71.6	80.2	86.8	92.5	100.8
Agriculture	39.9	30.9	33.4	39.3	42.7

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Memphis, TN-MS-AR	54	25,949	< \$250 mil.	77 (75.5%)
Jackson, MS	23	7,071	\$250 mil. to \$1 bil.	18 (17.6%)
Gulfport-Biloxi, MS	12	2,804	\$1 bil. to \$10 bil.	6 (5.9%)
Hattiesburg, MS	15	1,568	> \$10 bil.	1 (1%)
Pascagoula, MS	11	1,288		